



NORWICH City Council

Committee name: Audit

Committee date: 29/11/2022

Report title: Managing the risk of fraud and error in the payment of
Coronavirus Business Grants

Portfolio: Councillor Kendrick, cabinet member for resources

Report from: Head of Revenues and Benefits

Wards: All wards

OPEN PUBLIC ITEM

Purpose

This report is to provide an update on the work undertaken in respect of fraudulent applications for Coronavirus Business Grants.

Recommendation:

It is recommended that the committee notes the report and the ongoing work to reclaim grant funding.

Policy framework

The council has five corporate priorities, which are:

- People live independently and well in a diverse and safe city.
- Norwich is a sustainable and healthy city.
- Norwich has the infrastructure and housing it needs to be a successful city.
- The city has an inclusive economy in which residents have equal opportunity to flourish.
- Norwich City Council is in good shape to serve the city.

This report meets corporate priority to ensure Norwich City Council is in good shape to serve the city.

Report details

Introduction

1. As part of the Internal Audit recommendations update, Members asked for further information on Fraud investigations and business grants. Whilst this was originally suggested for an earlier meeting, the head of revenues and benefits is now in post and able to give an update.
2. This report outlines where most of the fraud relating to business grants has been uncovered, the actions taken, and the ongoing work taking place
3. Both Central and Local Government are acting regarding Business Grants Fraud.

Background

4. Fraud in the various Coronavirus Business Support grants/loans/schemes has been highlighted by publicity earlier in the year particularly in relation to Bounce Back Loans.
5. Nationally, over £400bn of support was given by the government during the pandemic. Over £70bn was paid from the Coronavirus Job Retention scheme (CJRS- also referred to as furlough) that sought to protect over 12 million jobs. £100bn of loans and grants were paid to over 1.5m businesses and £16bn was awarded in Business Rates Relief.

National position on fraud in the various Coronavirus schemes

6. The Bounce Back loan scheme has attracted most publicity in relation to fraudulent applications; lenders stopped £2.2bn of potentially fraudulent claims. Additionally, £743m of fraudulent claims were stopped from other schemes such as the Self Employment Income Support Scheme (SEISS), the Eat Out to Help Out scheme (EOHO) and the CJRS, where 0.3% was estimated to be lost to crime (March 2022).
7. Bounce Back loans were of higher value than the Business Support grants. Companies were entitled to claim Bounce Back Loans of up to 25% of their 2019 turnover, to a maximum of £50,000, for the economic support of their business.
8. The link below gives an example of a recent case where a couple exaggerated their 2019 turnover to claim a Bounce Back Loan:

[Essex mobile catering firm duo banned for a total of 16 years - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/news/essex-mobile-catering-firm-duo-banned-for-a-total-of-16-years)

9. Another recent case is reported here:

[East Midlands directors banned for Bounce Back Loan abuse - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/news/east-midlands-directors-banned-for-bounce-back-loan-abuse)

10. By the end of 2022/23 it is expected that over £1.5bn will be recovered in fraudulent payments.

11. The National Investigation Service (NATIS) and the National Crime Agency have arrested over 66 people in relation to Bounce Back Loans. In many of these cases loans were taken out and then mis-used for personal use rather than for the business.
12. Enforcement Agents pursue cases of serious fraud. There have been more than 106 director disqualifications, 48 bankruptcy restrictions, and 13 companies wound up. In a recently reported case a company director has received a suspended prison sentence. Investigating fraud can take time, therefore the number of cases will continue to rise as cases are progressed to conclusion.

Grants delivered by Local Authorities

13. Local authorities worked alongside the Department for Business Energy and Industrial Strategy (BEIS) to deliver numerous different Coronavirus business grants. As Appendix A highlights, in total funding has been awarded under 18 different schemes.
14. BEIS asked local authorities to pay the grants quickly, and subsequent guidance was given regarding pre and post payment assurance checking required, alongside reporting requirements. There were many calls with BEIS at the time, mostly around clarification of entitlement to a grant. The Council dedicated resources towards the payment of grants and implemented those control procedures recommended by BEIS to balance the requirement to minimise the risk of fraud whilst also ensuring that support could be quickly paid to businesses.
15. The council completed a full risk assessment as requested by BEIS. Because of the initial instruction by BEIS to pay out grants quickly, no pre-payment checks were completed for a number of the initial grants paid, but after that the council set up a number of processes for checking the validity of companies and has found less fraud in the later schemes as a result.
16. Internal Audit reported on the council's processes, the final report was completed in January 2022.
17. In relation to Business Grants paid out by the council, weekly assurance returns had to be given to BEIS for each type of grant.
18. Where the council identified grants paid in error/ fraudulently claimed or non-compliant it has been attempting to reclaim the grant. In relation to what the council has recovered to date, Appendix A is an overview of fraud and overpaid business grant cases.
19. Pre and Post payment assurance work subsequently identified where payments may have been made to ineligible businesses in the early round of grants and is where the majority of fraud and error is seen.

20. Examples of grants paid in error/ fraudulently claimed or non-compliant are:

- (a) Where the council awarded Small Business Rates Relief but then realised that it did not apply to that business, so they were ineligible for the grant;
- (b) Clarity on eligibility - although the council followed the guidance around eligibility for the grants, there were a number of grey areas and if it was subsequently discovered that the business should not have had a grant, it will attempt to recover the grant;
- (c) Fraudulent claims- where the grant was claimed but there was no eligibility and the grant had been paid in good faith. Fraud agencies were also alerted to a number of national frauds and updated councils to this effect to take action.

21. In total the council has identified 13 cases of Fraud and 92 cases where grants were paid in error, totalling £743,822.26, less than 1% of the total paid. To date the council has recovered £652,146.01. The total amount of grant funding paid out to businesses totalled £75.8m (see appendix B). Funding was based on Valuation Office Agency data for properties which was not always an accurate reflection owing to the description codes not necessarily reflecting the nature of the business and is a reason the total grant funding allocation was over or underspent by local authorities.

22. There has been no national data on this yet, and as both local authorities and BEIS are continuing to attempt to recover grants there may be something published once the recovery processes are exhausted.

23. The council was proactive in ensuring that grants were not paid in error by visiting properties to check whether trading or not, gathering sufficient evidence that the business was in occupation such as utility bills and bank statements, checking lease agreements and information back to the business rates system.

24. After the council has made 3 attempts to recover the funding it can refer the case back to BEIS who will then continue with the enforcement process, and if the process has been followed correctly BEIS will not hold the council liable for any outstanding debt.

25. Most cases the council has uncovered to date fall within the earlier grant schemes. The post payment checks on these have been completed recently and we have further invoices to raise to try and recover grants before returning any cases to BEIS.

26. The council anticipates it will be sending any uncollected identified fraud or overpaid cases to BEIS during November 2022.

27. The Institute of Revenues, Rating and Valuation (IRRV) have input into a current study by the National Audit Office (NAO) regarding the government's handling of the Covid-19 business support grants. The primary focus of the NAO's work is on central government, particularly BEIS, and the steps it took to ensure that these grant schemes achieved the outcomes for which it was hoping.

28. The IRRV took part in the study to assist the NAO to understand the perspective of local authorities and relevant stakeholders.

29. It is not known yet when the findings will be released.

Implications

30. If the council fails to recover fraudulent or incorrect payments in accordance with the correct process, BEIS may hold the council liable for the cost of these grants.

Financial and resources

31. Funding allocations were given under section 31 of the Local Government Act (2003) in the form of a grant to Local Authorities. These amounts differed for each scheme. Some schemes were limited (discretionary schemes), others were 'topped up' if the initial allocation was insufficient. Any unspent funding has had to be returned.

32. The council was given new burdens funding to help cover the cost of administering the grants, the pre and post payment checks and the reporting to BEIS. It has been particularly difficult to recruit to vacancies to cover staff that moved across to deliver the grants, so the service has had to adjust its priorities to deliver these grants, often at short notice.

Legal

33. The council followed the guidance from BEIS to deliver the grants.

34. Central Government agreed to fully reimburse Local Authorities, in line with guidance and the grant offer letters sent to Local Authorities, for the cost of the grant (using a grant under section 31 of the Local Government Act 2003).

35. Businesses receiving the grants were subject to Subsidy (State Aid) rules.

Statutory Considerations

Consideration	Details of any implications and proposed measures to address
Equality and Diversity	None
Health, Social and Economic Impact	The council was under pressure to deliver these grants quickly to help businesses survive the pandemic. A number of officers worked solely on delivering the grants.
Crime and Disorder	Recovery of fraudulent and incorrect payments is continuing, with those not engaging or clearing their invoices returned to BEIS for enforcement
Children and Adults Safeguarding	None
Environmental Impact	None

Risk management

36. There were many risks associated with the delivery of these grants, mainly due to changes in guidance.

Risk	Consequence	Controls required
Operational risk	Staff unable to pay grants in a timely manner	Ensure adequate staff resource allocated to delivering grants
Financial	Paying out more grant than funding	Controls in place to monitor spend
Compliance	Failure to pay grants correctly could mean the council is liable for the grant payment	Staff allocated are of a senior level to manage the process
Legal	Recourse is to judicial review. If found in applicant's favor could cost the council	Follow all guidance as issued
Reputational	Lost confidence in the council	Pay the correct amount to the correct recipient in a timely manner
Economic	Businesses fail due to failure to receive funding on a timely basis	Ensure that payments are made on a prompt basis

Other options considered

37. None

Recommendation

38. Audit Committee note the contents of this report.

Background papers:

None

Appendices:

Appendix A- Details on recovery of grants to date

Appendix B - Total grant funding allocations and payments made

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Appendix A- Details of recovery of grants as of 18 October 2022

Grant schemes Administered	Scheme dates	Fraud Cases Identified	Amount identified	Recovered Amount	Overpaid cases not fraud	Amount identified	Recovered Amount to date	Total amounts outstanding	Current Position on outstanding amounts
Small Business Grant	1 April to 30 September 2020	2	£20,000.00	£10,000.00	11	£110,000.00	£90,000.00	£30,000.00	Ongoing action to recover
Retail, Hospitality and Leisure Grant	1 April to 30 September 2020	5	£95,000.00	£85,000.00	20	£380,000.00	£335,000.00	£55,000.00	Ongoing action to recover
Local Additional Discretionary Grant	1 June to 30 September 2020	0			0			£0.00	
Local Restriction Support Grant (Open Scheme)	2 to 25 December 2020	0			5	£5,403.00	£5,403.00	£0.00	
Local Restriction Support Grant (Closed Scheme)	1 November 2020 to 31 March 2021	3	£2,668.00	£2,668.00	31	£18,411.69	£18,411.69	£0.00	
Local Restrictions Support Grant (Sector)	1 November 2020 to 31 March 2021	0			0			£0.00	
Local Restrictions Support Grant (Tier 4)	1 November 2020 to 31 March 2021	1	£1,810.43	£1,810.43	5	£12,504.00	£12,504.00	£0.00	
Local Restrictions Support Grant (2nd Cycle)	1 November 2020 to 31 March 2021	1	£2,001.00	£2,001.00	6	£13,368.00	£13,368.00	£0.00	
Local Restrictions Support Grant (Closed Lockdown Payment)	1 November 2020 to 31 March 2021	1	£4,000.00	£4,000.00	5	£25,000.00	£23,000.00	£2,000.00	Payment plan in place for £2000.00
Christmas Support Payment	2 December 2020 to 28 February 2021	0			0			£0.00	
Additional Restrictions Grant (LRSg - Version 1)	5 November 2020 to 31 March 2022	0			0			£0.00	
Additional Restrictions Grant (LRSg - Version 2)	5 November 2020 to 31 March 2022	0			1	£1,775.00	£1,775.00	£0.00	
Additional Restrictions Grant (Adaption Grant)	5 November 2020 to 31 March 2022	0			3	£5,646.14	£3,969.89	£1,676.25	Needs to be passed to BEIS
Additional Restriction Grant (Growth Grant)	5 November 2020 to 31 March 2022	0			1	£6,235.00	£6,235.00	£0.00	
Additional Restritions Grant (Plan B)	5 November 2020 to 31 March 2022	0			0			£0.00	
Additional Restrictions Grant - Omicron	5 November 2020 to 31 March 2022	0			0			£0.00	
Restart Grant	1 April to 31 July 2021	0			4	£40,000.00	£37,000.00	£3,000.00	Ongoing action to recover
Omicron Hospitality and Leisure Grant	21 December 2021 to 31 March 2022	0			0			£0.00	
		13	£125,479.43	£105,479.43	92	£618,342.83	£546,666.58	£91,676.25	

Appendix B - Total grant funding allocations and payments made

<u>Scheme Name</u>	<u>Scheme run dates</u>	<u>Fund received</u>	<u>Current paid applications</u>	<u>Current amount spent</u>	<u>Percentage of fund spent</u>
Small Business Grant and Retail, Hospitality & Leisure Grant	1 April to 30 September 2020	£39,062,000.00	2982	£38,265,000.00	97.96%
Discretionary Grant Fund	1 June to 30 September 2020	£2,032,000.00	170	£1,591,500.00	78.32%
Local Restriction Support Grant (Open Scheme)	2 to 25 December 2020	£771,878.00	515	£552,279.00	71.55%
Local Restriction Support Grant (Closed Scheme)	1 November 2020 to 31 March 2021	£26,360,084.00	7137	£18,007,983.73	68.32%
Christmas Support Payment	2 December 2020 to 28 February 2021	£83,200.00	61	£61,000.00	73.32%
Restart Grant	1 April to 31 July 2021	£11,766,240.00	1386	£10,440,427.00	88.73%
Additional Restrictions Grant	5 November 2020 to 31 March 2022	£5,232,498.00	2791	£5,218,399.39	99.73%
Omicron Hospitality and Leisure Grant (OHLG)	21 December 2021 to 31 March 2022	£2,124,099.00	470	£1,690,750.00	79.60%
		£87,431,999.00	15512	£75,827,339.12	86.73%